


NEWSLINE

Savings Plus Program


1st Quarter 2004

Understand Your Investments – Small- and Mid-Cap Stock Funds

This is the fifth in our series of articles on the basic investment categories – Cash/Stable Value, Bonds, Stocks – and another category Savings Plus offers called “Lifestyle” funds. In this issue, we focus on Small- and Mid-Cap Stock Funds.



Small-cap stock funds normally buy stock in companies with a market value below \$1 billion. These investments tend to be more volatile because small companies have a higher rate of failure than larger companies. On the plus side, small-cap stocks give you a wide range of investment opportunities with potentially higher returns. Therefore, if you're seeking the return potential of small-caps, you have to be willing to accept more fluctuation in their value.



Mid-cap stock funds buy stock in companies with a market value of \$1 billion to \$5 billion. These companies generally are well established in their markets and may have more experienced management than their small-cap counterparts. Mid-caps also may offer greater growth potential than large-cap stock funds, which invest in companies whose value typically exceeds \$5 billion.

SPP currently offers three mid-cap funds and one small-cap fund, shown on the chart on page 2. (We'll add more choices later this year.)

If you're an aggressive investor, especially if you have a long time horizon for your investments, you should

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Understand Your Investments

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consider allocating a relatively high percentage of your portfolio to small- and mid-cap funds. Historically, both categories offer the potential for positive returns over the long term (10 years or more).

However, even conservative investors — who generally are advised to invest most of their assets in the cash/stable value and bond asset classes — should consider investing a small percentage of their portfolio in small- and mid-cap funds. Both fund types add diversity to a portfolio that also includes more conservative large-cap funds. Such diversity helps you weather the market's ups and downs. When large-cap funds experience losses, you're likely to see positive returns from small- and mid-cap funds.

For all investors, it's important to diversify assets across investment categories and styles. This is especially true when you invest in stock funds, whether they're large-cap, mid-cap, or small-cap. Take time to review your portfolio to see if it's appropriately diversified. For help deciding the right mix of investments, use the asset allocation tool on our Web site or in the *SPP Investment Guide*; it will show you how to determine an appropriate percentage for each asset class in your portfolio.

The next *NewsLine* will report on International Stock Funds offered through Savings Plus.

SPP's Mid and Small-Cap Stock Funds	Fund Category
Accessor Small to Mid-Cap Advisors Fund	Mid Blend
T Rowe Price Mid-Cap Growth Fund	Mid Growth
Franklin Balance Sheet Investment Fund	Small Value
Franklin Small-Mid Cap Growth Fund	Mid Growth

Have you checked your beneficiary designation recently?

The start of a new year is an excellent time for you to check who is on record to receive your SPP assets upon your death. If you haven't checked lately, you should do it soon.

Although it may seem like a minor detail, all too often SPP account holders forget to update this beneficiary information when there's a change in family status such as a birth, death, marriage, or divorce, or when the contact information for beneficiaries changes. If we don't have the current information on file, your assets may not be distributed as you intend.

You can check your beneficiary designation in one of two places. One is at the end of your quarterly statement. (Due to limited space on the statement, we can only list up to six beneficiaries.)

The other place you can check your beneficiary designation is on our Web site, which will list as many beneficiaries as you've designated. Go to www.sppforu.com, click Employee, then log on to your account. (Remember, your account information is password protected, so only you can view the beneficiary designation online).

If there's a discrepancy between who you want designated and what's printed, submit a Beneficiary Designation Form. If you have both a 401(k) and a 457 plan, you need to designate a beneficiary for each plan, even if it's the same person.

Beneficiary designation forms are available by Internet or phone. At our Web site, go to Forms and Publications. By phone, call 1-866-566-4777; after entering your Social Security number and password, press 4, then press 5, enter publication number 8006 for the 401(k). Enter 8012 for the 457. Allow 6-10 days for delivery.

SPP Prohibits Excessive Trading

It has recently come to our attention that a small number of SPP participants have engaged in "market timing" of trades involving SPP's two international funds: Janus Adviser International Growth Fund (offered through the Hartford Variable Annuity) and Glenmede Institutional International Equity Fund.

Market timing is the practice of buying and selling fund shares quickly in an attempt to profit from discrepancies between a fund's share price and the value of its holdings. This practice can adversely affect long-term

performance of a fund, as well as drive up management fees, which are then passed along to all shareholders in that fund.

To protect SPP participants from the negative impacts of market timing, we are now limiting the frequency of transfers in and out of the two funds where we have identified this type of activity. Effective March 2004, SPP participants will be allowed no more than four trades per month (exchange or end result exchange transactions) into and out of either the Janus Advisors International Fund or

Glenmede Institutional International Equity Fund.

This restriction does not affect participants whose monthly deferral goes into either or both of these funds.

This restriction is intended to curb the excessive trading habits of a small minority of participants within Savings Plus, and will not affect the majority of participants who are practicing sound long-term investing strategies.

News Notes

Asset Allocation Now Easier

Diversification can help you manage investment risk. The Ibbotson Asset Allocation Tool, available on the Savings Plus Web site (go to www.sppforu.com, then choose Employee/Planning Tools) can guide you through the process. The tool shows you how to allocate your assets based on your time horizon and the type of investor you are.

Once you decide how you want your funds allocated, there's a simple way to rebalance your portfolio to reflect that allocation. Access your account online or by phone; follow the prompts for making an "exchange," then select "End Result Exchange." Enter the percentage of your total SPP assets that you want to end up in each fund. Your funds will then be exchanged into these funds according to the "end result" you've chosen.

New Investment Choices Coming Soon

SPP will add three new stock fund choices to our investment lineup in 2004. Adding these funds will allow SPP to offer choices in three

categories that currently are not represented in our lineup: Mid-cap Value, Small-cap Blend, and Small-cap Growth.

As usual, the specific fund providers will be selected through a competitive bid process that considers performance, fees, stability of management, and more. The RFP will be issued in June of this year. We expect to announce the new funds by September.

Updates and final selections will be posted on the SPP Web site and in our 3rd Quarter 2004 *NewsLine*.

Savings Plus Updates Its Publications

We're pleased to announce the *Savings Plus Investment Guide*, *Getting Started in Savings Plus*, and *Guide to the Voice Response System (VRS)* are all being updated in 2004. The *VRS Guide* is enclosed with this *NewsLine*.

The *Investment Guide* and *Getting Started* handbook will be available June 1. At that time, you can access the publications on our Web site (go to

www.sppforu.com, click Employee, then Forms and Publications) or request them by phone. To order by phone, call the Voice Response System at 1-866-566-4777; after entering your Social Security number and password, press 4, then press 5, enter publication number 8000 (*Investment Guide*) or 8001 (*Getting Started* handbook). Allow 6-10 days for delivery.

Using SPP Funds to Purchase Service Credit

You may use funds in your 401(k) and 457 plans to purchase service credit with CalPERS, CalSTRS, or other governmental agencies. If you plan to use SPP funds to purchase service credit, you must first request a cost estimate from CalPERS, CalSTRS, or other agency. After you receive your estimate, submit either a 401(k) or 457 Purchase of Service Credit form to Savings Plus. Forms are available on the Web site or VRS.

Contact CalPERS at (888) 225-7377 or CalSTRS at (800) 228-5453 if you have questions regarding your eligibility to purchase service credit.

Investment Fund Update

Fund Investigations

The Hartford Financial Services Group, Inc. acknowledged in a report to the SEC (Form K-8) that it has been served with a subpoena by the New York Office of the Attorney General. At this time, no criminal or civil charges have been brought against Hartford.

Franklin Resources acknowledges it might be investigated by the SEC for possible market timing activities. Franklin did confirm it placed 3 staff on administrative leave and received subpoenas from the Massachusetts Office of the Attorney General and U.S. attorneys for the northern district of California.

Fund Manager Changes

Vanguard U.S. Growth, January 2004 – Christopher Toub leaves as co-manager; Alan Levi and John Blundin will now share management of the fund.

MFS Massachusetts Investors Growth Stock, October 2003 – The fund is now co-managed. Stephen Pesek, longtime exclusive and sole manager, will continue to manage two-thirds of the fund's assets. Irfin Ali now manages one-third of the portfolio. In the future, Gregory Locraft will take on one-half of Stephen Pesek's fund management responsibilities. This will create a three-in-one management structure for this fund.

Watch List	Criteria
Accessor Small to Mid-Cap Fund	1
Putnam Investors Fund (Nationwide VA)	1
Seligman Growth Fund (Nationwide VA)	1
VALIC (AIG)-Stock Index Fund (VALIC VA)	1
Vanguard U.S. Growth Fund	1

Watch List Criteria:

- 1 Did not meet the established performance standards (benchmark/peer universe) over preceding 3/5-year period
- 2 Investment manager changed or such change appears imminent; this change may have detrimental effect on fund
- 3 Significant change in ownership or control of the fund provider
- 4 Material change occurred in investment focus/strategy, capitalization, or investment style
- 5 Substantial portfolio turnover within the fund
- 6 Violation of a Security and Exchange Commission rule or regulation
- 7 Fund experienced difficulty transacting trades, fund transfers, or pricing
- 8 Fund experienced problems in procedures or operations, which may detract from Savings Plus objectives
- 9 Violation of contract terms

May is Retirement Planning Month

The first week of May, CalPERS will host a series of 11 "open houses" throughout the state. These open houses support this year's theme "Destination...Retirement – your journey to a financially secure future."

Whether your retirement is several years off or this year, it's important to develop a plan to achieve your retirement goals. Ask yourself: How much income will I need? How much income will my CalPERS pension provide? How much can I anticipate from Social Security? How much should I invest in a 401(k) and/or 457 plan through Savings Plus? The assets you build through Savings Plus can bridge the gap to a more secure retirement.

Look for specific details and open house locations in the Spring edition of CalPERS' *Perspective* or visit the CalPERS Web site at www.calpers.ca.gov.



State of California

Department of
Personnel Administration

Savings Plus Program

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How to Reach Us

Hours

Lobby: 8:00 a.m. - 5:00 p.m.

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